

MEMO TO FILE

Subject: Interview with Joel Smith and David Fulton
19 July 1978

(S.U. Development Office)

This is a brief summary of a congenial conversation that lasted almost two hours.

On the general question of how direct to be in making approaches for gifts: authenticity is the principle. Stay in character.

On how to use the development staff: Mostly for technical backup of officers and volunteers. In many cases, the credibility of development staff would be greatly enhanced if they can make calls with a trustee or with a faculty member who can give them some academic standing. Another way that I can add to their effectiveness is to be sure to make a delegation of my interest and authority in introducing them as acting on my behalf.

What do donors look for: Hard to overstress managerial competence. While need may be a factor, donors are put off about the possibility they will be sinking money down a rat hole. This suggests the desirability of looking for explicit ways to exhibit fiscal discipline. (For RU this might include a policy paper on how we intend to deal with endowment, including possibly some stated payout policy and its articulation. The very fact that we were moving to this method of accounting would be a statement in itself. These same considerations or cautions about allowing an interval of deficit financing even though on its own merits that might seem permissible.

A working trustee: It is impossible to overvalue someone like Ralph Ablon. He probably gets most of his rewards from his occasional successes. Keeping in view that he must eat dirt a large fraction of the time it seems important to extend oneself to him.

Smith: Don't get lost in the technology of fund raising. It is the quality of performance that stands out above all.

Targets: It is not true that you must never fail but it is important that you have occasional victories in order to sustain morale. Targets should be set so as to stretch the capabilities and efforts to an achievable maximum. They should be set on a five year basis so as to avoid one year fluctuations.

Matching: Smith gave me some history, namely that the Ford Foundation had a large program of matching grants in the early 60's which they then viewed as being very important in institutional advancement but which there could be many questions about. But he does not know how to document any of that. Those grants had a 1:3 ratio and may have had some influence in mobilizing efforts that would not have been done otherwise. He agreed it was very difficult to see any leverage motivation from that. The way in which Stanford uses matching funds is to reduce the buying-in price say, for an endowed chair by 25%

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or so using small matching gifts to complete a package. In this case obviously there is considerable leverage. The named donor is still able to put his name on the chair. I could also make the point that there is a great deal of leverage in grants which are offered on an all or nothing basis as one approaches the margin but the less said about that the better. Matching grants may also have had a role in the Ford program by motivating organizations to organize a development staff that they might not have had otherwise. But this is hardly the case for either RU or SU. SU did have a carefully designed fall-through and made a concerted campaign from the beginnings of the Ford effort.

Throughout his discussion, Smith emphasized that the success of Stanford's program has been very much connected with its professionalism and he implied that I would be surprised at how crude and amateurish most such efforts are throughout the country. Furthermore, as to my remarks about a designed payout rate on the endowment this apparently is done at Stanford and very few other places so I should not have been surprised at the reaction to my questions at RU.

Fungibility: Smith shared my own perplexities and concerns about how to sell, as he put it, a "non incremental endowed chair". He said it is certainly true that after a rather short period of time a department budget is not going to be seriously influenced by the availability of that specific endowment. He has shared my own problem in thinking that through but has been reassured by Bill Miller and others that in a practical way it has never been a problem. As a matter of local policy after some discussion, this is not a matter where the University takes a strong initiative in laying it out but Smith himself would feel easier if there had been at least some discussion about the overall impact on managerial control even after restricted gifts had been made. At other institutions they were horrified at the idea that we could even raise such a question!

We pursued some further models. I speculated that some donors may be neither very sophisticated nor in a sense very deeply concerned about the details of the program which they were supporting beyond the flesh of the moment. If that were the case given that they had some general confidence in the overall direction of the institution they might be relatively oblivious to the specific impact on a particular program of their earlier gift, particularly a few years later. That did not seem very plausible. Another model is that donors are indeed very sophisticated about the fungibility of their contributions but on the same argument about confidence in management they will generally discount this. That was perhaps too strong a statement.

Dave Fulton thought that we should emphasize the non monetary aspects of these gifts: That they confer an honor on a specific recipient regardless of the realities of cash flow; in turn, they

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reflect honor on the donor. There might be some concern about negative feedback from disgruntled professors or department chairmen but in my own view this is very unlikely to happen unless morale is very poor indeed. and there would almost always be prior communication within the administration.

On questions of the composition of the Board there should be concern about two classes of Board members over a period of time. I should work hard to find specific tasks for them to do.

About the reputation that the Development Office takes a stern view on sustaining a unified approach: The basic logic is 1) to make it clear that the university is "well organized and has thought through carefully what its needs are" and 2) Review that a small gift may deflect a larger one. This was puzzling to me but the key datum is that for many prospects it is very often true that with careful cultivation they can be induced to make gifts that are very substantially larger than their original intentions. This is likely to be frustrated if they feel that they have discharged their responsibilities with an early contribution. Sometimes they will do this even on their own initiative on hearing of some news like a campaign and that is one of the anomalies they shutter about. On the other hand there are other institutions, notably Harvard, which do not maintain any discipline at all. The main concerns that Smith had was that this kind of structuring tends to build up a bureaucracy which causes problems and also that ruling competition is not always the most effective thing to do.

Are donors always sophisticated about tax matters: Decidedly not. There may be considerable variation in this respect. One of the aspects of professionalism at Stanford has been their superb tax-legal staff and the documents that they have put out on some of the extraordinary subtleties of philanthropic gifts as tax-deductions. It is not true that possession of great wealth is always correlated with much sophistication at this operational side.

What about the ethics of listing ones' professional and other contacts as prospects for development. Don't do it. To say the least that will merely mark you as a mere salesman for the University and unless you go into this very carefully and in a very personal and intimate way you would lose more than you would gain.

How evaluate the performance of the staff: You will have to look at the general competence and understanding of the individual. It is very dangerous to use any kind of objective performance result which among other things will lead to hasty actions in order to meet a quota.

What about the associations: The profession is highly immature. There is nothing of value to be gotten there. This goes along with the remark that there is almost nothing worthwhile written in this area.

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What about specific individuals: There are particularly good programs at the following institutions:

Princeton	- H. Bessine	UP/D
Cornell	Roy Handlan	Dir D
MIT	Nelson Lees	
U. Pa	Norman Fink	
Stanford	Joel Smith	

Columbia seems to be floundering.

By all means, call back on Dave or Joel at anytime at Stanford. They would be delighted to hear.

On the specific issue of negative remarks about other institutions: exactly according to my own instincts a very dangerous inappropriate thing to do.